LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7828 **DATE PREPARED:** Mar 23, 2001
BILL NUMBER: HB 1950 **BILL AMENDED:** Mar 19, 2001

SUBJECT: Medicaid Buy-in Program for the Working Disabled.

FISCAL ANALYST: Alan Gossard
PHONE NUMBER: 233-3546

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
DEDICATED
X **FEDERAL**

Summary of Legislation: (Amended) This bill establishes a Medicaid Buy-in program to provide Medicaid coverage to certain working individuals with disabilities as authorized by federal law. The bill establishes the Medicaid Work Incentives Council to assist the Office of Medicaid Policy and Planning (OMPP) in developing the Medicaid Buy-in program.

This bill specifies eligibility requirements for the Buy-in program and requires an annual review of the Medicaid Buy-in program by OMPP and the Medicaid Work Incentives Council. The bill requires OMPP to apply for certain federal grants. It also allows OMPP to apply for a federal grant to implement a demonstration project to provide Medicaid coverage to certain individuals.

Effective Date: Upon passage; July 1, 2001.

Explanation of State Expenditures: (Revised) Implementation of a Medicaid Buy-in program is estimated to result in additional state costs of $0.751 M to $0.916 M in FY 2003 and $0.263 M to $0.428 M in FY 2004. In addition, there potentially could be significant offsets to the program costs, including (1) increased individual income tax revenue estimated at $0.700 M annually; and (2) additional federal grant revenues available to the state for the purpose of improving the infrastructure associated with the state's ability to provide, manage, or support services provided through the Buy-in program.

Background: The enabling legislation for Medicaid Buy-in programs was established in the federal Balanced Budget Act of 1997. these provisions were later broadened by the federal Ticket to Work and Work Incentives Improvement Act of 1999. A Buy-in program allows states the option of extending Medicaid coverage to working people with disabilities whose incomes otherwise would disqualify them from Medicaid. States, in essence, may establish a new Medicaid eligibility category with different income and asset requirements than in the regular Medicaid program. States may also implement co-payments, fees, premiums, or other cost-sharing provisions for participants.

States have considerable flexibility in designing a Buy-in program. Individuals must meet the SSI definition of disability and be working. In addition, premiums may not exceed 7.5% of the individual's income. However, a state may design premium and other cost-sharing requirements that very by income level. In essence, an individual may, by paying premiums or sharing costs, "buy in" to the Medicaid program that then serves as a supplement to any income and health benefits the individual may receive from employment. About 15 other states are known to have implemented Buy-in programs.

The total new expenditures are due largely to new costs for personal care services and services that would otherwise be forgone because of an individual's becoming ineligible for Medicaid due to increased earnings. In addition, there would be initial costs for computer system changes, additional staff and contracts, and for the Work Incentives Council. There would also be cost offsets in the form of premium payments paid by the Buy-in participants. The target population of Medicaid Buy-in participants is estimated to be 1369 in FY 2003. The projected costs as estimated by OMPP are provided in the following table.

	FY 2003		FY 2004	
	Total Costs	**State Share**	**Total Costs**	**State Share**
Health Services:				
Personal Care Services *	$0.427 M	$0.162 M	$0.427 M	$0.162 M
Continued Services **	$0.772 -$1.206 M	$0.293-$0.458 M	$0.772 - 1.206 M	$0.293- 0.458 M
Health Services - Total	$1.199-$1.633 M	$0.455-$0.620 M	$1.199-$1.633 M	$0.455-$0.620 M
Administrative Costs: ***				
System Changes	$1.183 M	$0.459 M	$0.031 M	$0.012 M
Staff	0.151 M	0.075 M	0.098 M	0.049 M
Contracts	0.770 M	0.385 M	0.740 M	0.370 M
Work Incentives Council	0.003 M	0.001 M	0.003 M	0.001 M
Administrative - Total	$2.107 M	$0.920 M	$0.873 M	$0.432 M
Premiums Received:	(1.019 M)	(0.624 M)	(1.019 M)	(0.624 M)
Net Program Costs:		**$0.751-$0.916 M**		**$0.263-$0.428 M**

* Personal Care Services information based on data received from Wisconsin.
** Buy-In participants potentially will have reduced Medicaid expenditures due to the ability of some participants to participate in employer-sponsored health benefit programs, SSDI recipients eligible for Medicare with Medicaid only providing wrap-around services, and because working individuals may have less utilization of Medicaid services. Some research has shown that fully employed mentally ill clients have lower utilization rates (about 64% of the utilization of unemployed clients) of Medicaid services through the Medicaid Rehab Option. The lower estimate of the cost of continued services reflect this potential utilization of Medicaid services.
*** Some administrative expenditures may fall in FY 2002. Program expenditures will begin in FY 2003.

Source: OMPP (all information exclusive of the personal care services data) and the state of Wisconsin (personal care services data).

The cost estimates in the table do not incorporate other potential revenues associated with a Buy-in program, including (1) additional individual income tax revenue of an estimated $700,000 and (2) federal grants that may be available to the state (see Explanation of State Revenues, below).

The program cost estimate in the table above does include premiums paid by program participants based on a sliding fee scale ranging from $25 to $275 with the average cost-sharing per recipient being about $100 per person per month. Premium revenue must be shared with the federal government at the same rate Medicaid expenditures are shared. The premium levels are not prescribed in the bill, but may be adjusted at administrative discretion.

The number of Buy-in participants that will require personal assistance services is not known with certainty. A preliminary estimate of 2% of the participants is assumed based on evidence from Wisconsin's Buy-in program. Wisconsin has approximately 900 participants in their Buy-in program with 15 (1.7%) using personal care services.

The Medicaid Buy-in program is cost-shared with the federal government. Federal financial participation for Medicaid services is approximately 62% with the state share being the balance of 38%.

Explanation of State Revenues: (Revised) There would also be additional individual income tax revenue generated by individuals who are able to work and earn income because of this program. Additional individual income tax revenues are estimated to be about $700,000 annually once average income levels are reached. This revenue is deposited into the state General Fund. Additional revenues also include federal grant revenue.

Background: The extent of the additional tax revenues generated will depend upon the average income and deductions of those individuals in the Buy-in program. The following assumptions were used in the calculation of the estimate: (1) Average earnings of individuals in the U.S. with a severe disability who are not prevented from working and whose income is not restrained by federal program income eligibility requirements is $20,976 (1997: U.S. Census Bureau); (2) Average annual income of individuals with severe disability and receiving Social Security Disability (SSDI) payments is $7,803 (1997: U.S. Census Bureau);(3) Indiana per capita income relative to U.S. per capita income equals 92%; (4) Annual per capita income growth of 3.58%; and (5) 1,369 individuals participating in the Medicaid Buy-in program. The 1997 average income estimates were inflated by the average growth in per capita personal income over the last five years and discounted by Indiana's per capita personal income relative to that of the U.S. Based on an individual income tax rate of 3.4%, the additional tax revenue generated by working individuals is estimated to be about $700,000 annually when the average income levels are reached. The Buy-in program is to begin in 2003.

In addition, there may potentially be increased revenues from federal grants. Federal grants include HCFA Infrastructure Grants and other demonstration grants with grant levels of $500,000 or more per year with no state match required. HCFA reports that most state applications for Infrastructure grants have been approved. However, acquisition of any grants will depend upon federal and state administrative actions.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) Counties imposing local option income taxes may experience an increase in revenue from these taxes as a result of the Medicaid Buy-in program.

State Agencies Affected: Office of Medicaid Policy and Planning.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Kathy Gifford, OMPP, (317) 233-4455; Karen Tritz, HCFA, (410) 786-0789.

"Ticket to Work: Medicaid Buy-in Options for Working People with Disabilities," National Conference of State Legislatures, July 2000.
"Americans with Disabilities: Household Economic Studies," U.S. Census Bureau, U.S. Department of Commerce, 1997.